

# INSIGHTS

## DENMARK IS WELL PREPARED FOR ETS2

TIME TO TARGET SMARTLY

CLIMATE, ENERGY & NATURAL RESOURCES | NOVEMBER 2025

The Social Climate Fund (SCF) is financed by part of the revenues from the EU's new Emissions Trading System for buildings and road transport (ETS2) and with a goal to alleviate the social and economic impact of higher carbon pricing. To access this funding, member states must develop Social Climate Plans (SCPs) and explain how they plan to protect vulnerable households and transport users from rising energy and transport costs.

Denmark enters the new ETS2 system from a position of strength. Few Danish households are considered energy and transport poor, and a robust and well-developed social safety net already protects many of those at risk. But as ETS2 begins to price carbon in fuels for heating and transportation, the continued success of maintaining low levels of energy and transport poverty, will depend on ensuring that the necessary support reaches

## Denmark's strong starting point

Denmark is among the best prepared Member States to handle the social impacts of the new ETS2. Today, only **0.2–0.9 %** of households are considered energy poor according to national estimates, and the Danish welfare model already provides various types of income support that shields the most vulnerable.

With district heating already serving over 40% of households and electrification (such as electrical vehicles) advancing quickly in both heating and transport, the overall impact of ETS2 price increases is expected to remain limited.

The findings presented here stem from the EU project “Support to the Preparation of Social Climate Plans”, led by Trinomics in collaboration with a wider consortium of modelling experts and country teams. Copenhagen Economics led the work for Denmark as part of this consortium, contributing analysis and policy recommendations throughout the project, which ran from summer 2024 to the fall of 2025.

### The challenge: Protecting the small group who risk a large impact from the ETS2

Denmark's strong starting point does not eliminate the need for action. However, it changes the type of action required.

Vulnerability to energy and transport poverty is less widespread and focused on a relatively low number of households. This makes it crucial that the Danish Social Climate Plan go beyond broad compensation schemes, and instead focus on identifying, targeting and mitigating the impact of the small groups at risk. There are several indicators that characterise vulnerable households: They are typically low income, relying on fossil heating, living in housing with low energy performance. Moreover, they often live in rural areas with limited access to public transportation.

The policy challenge then becomes: *How can Denmark maintain simplicity in its schemes while addressing energy and transport poverty by targeting those few who need support the most?*

#### Target where it matters most

The analysis shows that a handful of well-chosen measures can deliver both fairness and emissions cuts. Five Danish initiatives — such as the *Energy Renovation Fund*, *Heat Pump Fund*, and *Cycling Fund* — could together help around **6,000 households** and **12,000 transport users**, while reducing emissions by roughly **25 kt CO<sub>2</sub>** annually. Analysis also shows that these measures have an even larger potential if they are further targeted towards vulnerable groups.

#### Evaluate public transport investments through a social lens

With the forthcoming national definition of “transport vulnerability”, policymakers can better identify areas where accessibility is low and dependency on private cars is high. Applying this definition systematically can ensure that new infrastructure serves not only to cut emissions, but also to connect vulnerable groups — for instance, rural residents, students, and low-income households without access to cars.

#### Build a lasting monitoring framework

With comprehensive registries covering income, housing, and transport behaviour, Denmark can establish a systematic monitoring and reporting framework for energy and transport vulnerability by linking social, environmental, and economic data. Such a system would make it possible to track changes in vulnerability over time, evaluate which measures work best, and adapt policies dynamically as ETS2 and the energy-economic system evolves.

## Designing a targeted policy framework for those at risk: Three of our recommendations

### TARGET WHERE IT MATTERS MOST



**Refine eligibility**  
to focus on  
low-income, high-energy  
expenditure households

### EVALUATE PUBLIC TRANSPORT INVESTMENTS THROUGH A SOCIAL LENS



Assess **accessibility**  
**and affordability** in  
infrastructure, using the  
upcoming definition of  
“transport vulnerability”

### BUILD A LASTING MONITORING FRAMEWORK



Build on a strong data  
culture in policymaking:  
develop a **data and reporting**  
**system** for energy and  
transport vulnerability

# Hard facts. Clear stories.

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